NATIONAL TREASURY

MFMA Circular No. 94

Municipal Finance Management Act No. 56 of 2003

Municipal Budget Circular for the 2019/20 MTREF

CONTENTS

Introduction

This budget circular is a follow-up to the one issued on 07 December 2018 and it complements the many other circulars that have been issued previously. It guides municipalities with their preparation of the 2019/20 Medium Term Revenue and Expenditure Framework (MTREF) and, as with previous annual budget circulars it should be read within this context. Among the objectives of this Circular, is to support municipalities with giving effect to National Treasury's Municipal Budget and Reporting Regulations (MBRR) within the current economic climate. The key focus of this Circular is the grant allocations per the 2019 Budget Review and the 2019 Division of Revenue Bill.

1. The South African economy and inflation targets

The economic and revenue outlook has deteriorated since the October 2018 Medium Term Budget Policy Statement (MTBPS). Funding pressures from state-owned companies have increased and require government financial support. Given these developments, the 2019 Budget proposes large-scale expenditure reprioritisation and tax measures that narrow the deficit from 4.5 per cent of GDP in 2019/20 to 4 per cent by 2021/22.

The 2018 MTBPS noted that weak economic performance and revenue shortfalls had contributed to some slippage in fiscal projections. Since then, economic growth has remained subdued and the domestic GDP outlook has been revised down. In the current year, tax revenue will be R15.4 billion below the 2018 MTBPS estimate. Funding pressures from Eskom and other financially distressed state-owned companies have increased, with several requesting state support to continue operating. In this context, the 2019 Budget proposes a series of tax and expenditure measures aimed at narrowing the deficit and stabilising the debt-to-GDP ratio. Additions to spending amount to R75.3 billion over the medium term, consisting mainly of transfers to support the reconfiguration of Eskom. These additions are partially offset by reductions to expenditure baselines and proposed savings from compensation adjustments totalling R50.3 billion. Tax measures raise an additional R15 billion in 2019/20 and R10 billion in 2020/21.

In combination, these measures are expected to narrow the consolidated budget deficit from a projected 4.5 per cent of GDP in 2019/20 to 4 per cent of GDP in 2021/22. Gross national debt is projected to stabilize at 60.2 per cent of GDP in 2023/24. Net loan debt (gross loan debt excluding government's cash balances) stabilises at 57.3 per cent of GDP in 2024/25.

The GDP growth rate is forecasted at 1.5 per cent in 2019, 1.7 per cent in 2020 and 2.1 per cent in 2021. The revisions take into account weaker investment outcomes in 2018, a more fragile recovery in household income and slower export demand than expected due to moderating global growth. Consumer inflation has also been revised down due to lower oil prices and food inflation than previously assumed.

The main risks to the economic outlook are continued policy uncertainty and deterioration in the finances of state-owned entities. These factors, alongside continued high unemployment and slow growth will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach is advised for municipal revenue projections. Municipalities affected by the drought should also consider its impact on revenue generation. In this context, municipalities will have to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.

The following macro-economic forecasts must be considered when preparing the 2019/20 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections 2018 -2021

Fiscal Year	2018/19 Estimates	2019/20	2020/21 Forecast	2021/22
Consumer Price Inflation (CPI)	4.7%	5.2%	5.4%	5.4%
Real GDP Growth	0.7%	1.5%	1.7%	2.1%

Source: 2019 Budget Review.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

2. Key focus areas for the 2019/20 municipal budget process

Over the medium-term expenditure framework (MTEF) period, after budgeting for national government's debt-service costs, the contingency reserve and provisional allocations, 47.9 per cent of nationally raised funds are allocated to national government, 43 per cent to provinces and 9.1 per cent to local government.

Local government receives the smallest share of the division of nationally raised revenue because it has significant own revenue-raising powers. These revenue raising powers must be exercised more than ever before in the current dispensation. Local government raises about 70 per cent of its own revenue, but would be able to raise more if municipalities improved municipal revenue policies, billing and collection practices. In 2017/18, almost half of all municipalities collected less than 80 per cent of their billed revenue.

Spending outcomes for 2017/18 varied across the 257 municipalities. Many municipalities continue to adopt unrealistic spending plans. As a result, 217 municipalities underspent their operating budgets and 220 municipalities underspent their capital budgets. Of the R30 billion in conditional grants transferred to municipalities in 2017/18, R28 billion (93 per cent) was spent – an improvement from 86.8 per cent in 2016/17.

2.1 Local government grants and municipal revenue strength

Since the 2018 Medium Term Budget Policy Statement (MTBPS) reprioritisation and reductions undertaken have affected planned spending for 2018/19. Over the next three years there is strong growth in allocations to the local government equitable share, while growth in conditional grants recovers following significant reductions made in the 2018 MTEF. Total direct allocations to local government will now grow at an annual average rate of 7.6 per cent over the MTEF period.

Over the 2019 MTEF period, R414.7 billion will be transferred directly to local government and a further R22.5 billion has been allocated to local government through indirect grants. Direct transfers to local government over the medium term account for 9 per cent of national government's non-interest expenditure. When indirect transfers are added to this, total spending on local government increases to 9.4 per cent of national non-interest expenditure.

While there are some reductions in some grant programmes, they do not affect all conditional grants and not all grants were reduced by the same percentage. The infrastructure conditional grants, particularly the larger ones, were mainly affected as this was considered the most practical approach. However strong growth is realized in the local government equitable share with an average annual rate of 9.4 per cent over the MTEF period, while the conditional transfers see slower growth at an annual average rate of 7.6 per cent.

Conditional grant funding targets delivery of national government's service delivery priorities. It is imperative that municipalities understand and comply with the conditions stipulated in the Division of Revenue Act (DoRA) in order to access this funding. The equitable share and the sharing of the general fuel levy constitute unconditional funding, of which the equitable share is designed to fund the provision of free basic services to disadvantaged communities.

Government has repeatedly emphasised the importance of municipalities focussing on growing their own revenue base in order to expand resources available for local service delivery. Municipalities with significant revenue bases are expected to invest more of their own resources, offsetting some of the impact of reductions to infrastructure grants, while building partnerships with the private sector for infrastructure delivery over the period ahead.

Legislation governing local planning and budgeting emphasises community participation in decision-making. The partnership between municipalities and communities relies on households and businesses recognising the value of, and paying for, municipal services. While government subsidises municipal services for low-income households, these services are only sustainable if people who can afford them – and use larger quantities – pay their bills. Therefore, the sustainability of municipalities depends on how they collect and spend their own revenues.

Municipalities are reminded that all allocations included in their budgets must correspond to the allocations listed in the Division of Revenue Bill. All the budget documentation can be accessed from the National Treasury website by clicking on the link below: http://www.treasury.gov.za/documents/national%20budget/2019/

2.1.1 Changes to local government allocations

2.1.1.1 Unconditional grants

In the process of determining the baseline for the outer year (2021/22) of the 2019 MTEF period, the local government equitable share allocation has grown by 8.6 per cent of the baseline. This will cover the anticipated increase in the costs of providing free basic services to a growing number of households, and takes account of likely above-inflation increases in the costs of bulk water and electricity. It will also allow for above-inflation increases in the allocations to poorer and rural municipalities through the redistributive components of the equitable share formula.

2.1.1.2 Conditional grants

- A total of R295.9 million has been cut from direct local government conditional grant allocations for the MTEF period ahead to fund other government priorities. Indirect grants to local government have been reduced by an additional R600 million.

- An amount of R60.7 million is shifted from the incentive component of the integrated urban development grant in 2019/20 and added to the municipal disaster recovery grant to fund the repair of roads damaged by floods in Joe Gqabi District Municipality in the Eastern Cape.

- A total of R2.8 billion is added to the public transport network grant for the construction of a new public transport corridor on the MyCiti bus network in Cape Town. This corridor, connecting Mitchells Plain and Khayelitsha to the city, was approved through the Budget Facility for Infrastructure and will be implemented over a nine-year period.

2.2 Technical adjustment and continued funding of Drought disaster relief

The following technical adjustments were made to grant programmes:

- R2.9 billion over the MTEF period from the municipal infrastructure grant to a new integrated urban development grant.

- R814.5 million over the MTEF period from the integrated national electrification programme (municipal) grant to the urban settlements development grant, as electrification projects in municipal licenced areas in metropolitan municipalities will now be funded as part of this integrated grant.

- R3 billion in 2020/21 and R4.4 billion in 2021/22 from the urban settlements development grant to create a new informal settlements upgrading partnership grant for municipalities.

2.2.1 Funding for Disaster Relief

After the initial response to a disaster has been addressed, including funding from the municipal disaster relief grant discussed below, the repair of damaged municipal infrastructure is funded through the municipal disaster recovery grant.

The municipal disaster relief grant is administered by the National Disaster Management Centre in the Department of Cooperative Governance as an unallocated grant to local government. The centre is able to disburse disaster-response funds immediately, without the need for the transfers to be gazetted first. The grant supplements the resources local government would have already used in responding to disasters. To ensure that sufficient funds are available in the event of disasters, section 21 of the Division of Revenue Bill allows for funds allocated to the provincial disaster relief grant to be transferred to municipalities if funds in the municipal grant have already been exhausted, and vice versa. Over the MTEF period, R1 billion is available for disbursement through this grant. To ensure that sufficient funds are available for disaster relief, clause 20(6) of the Division of Revenue Act allows funds from other conditional grants to be reallocated for this purpose, subject to the National Treasury's approval.

2.3 Response to the Finance and Fiscal Commission (FFC)'s recommendations

Government continues to provide responses to the FFC's recommendations on an annual basis. These annual recommendations by the FFC are required in terms of section 9 of the Intergovernmental Fiscal Relations Act. The FFC, amongst other recommendations, indicated that government should develop and strengthen control measures on the financial transfers in order to ensure compliance and that these funds be properly spent for their intended purposes, typically of improving service delivery and related specific priority outcomes.

The commission further highlighted that control measures should be underpinned by tighter monitoring of and reporting by sub-national governments on the use of grant funding and associated outcomes of such spending, and that National Treasury should ensure that decisive action, such as withholding of funds, is taken by national sector departments as soon as cases where inefficient, ineffective, wasteful or irregular spending of these funds are detected.

National Treasury in its response indicated that in terms of the annual Division of Revenue Act, the transferring officer of the grant (the department administering a conditional grant) is responsible for monitoring performance and withholding funds where necessary. However, the National Treasury is also empowered by section 216(2) of the Constitution to stop the transfer of funds to any organ of state that commits a serious or persistent breach of the

measures prescribed to promote transparency, accountability and the effective financial management of the economy, debt and the public sector. A legislative framework and related policies, including guidelines and circulars, already exists to assist with early detection of issues that warrant withholding funds (by transferring officers or the National Treasury). Chapter 6 of the Budget Review describes complementary efforts to build municipal capacity. National Treasury will strengthen this role in the 2019/20 financial year in support of the recommendation by FFC.

2.4 Borrowing for capital infrastructure

The Circular also provides clarity and updates the December 2017 MFMA Circular No. 89 specifically with regards to long-term borrowing.

National Treasury has taken the position that municipalities may not incur long-term debt to replenish internally generated funds which were spent in prior financial years, even if such spending was for capital expenditure. Borrowing to replace municipal funds previously spent is inconsistent with section 46 of the MFMA, which provides that a municipality can only incur long-term debt for the purpose of capital expenditure on property, plant, and equipment to be used for lawful purposes, and in certain circumstances, for refinancing existing long-term debt. Borrowing proceeds must be used to fund current and future capital expenditure, and may not be attributed to expenditures in previous years.

PLEASE NOTE that the sentence contained on MFMA Circular No. 89 stating that *"The incurring of the expenditure against a different source of finance that was approved will be regarded as unauthorised expenditure" has been revoked.*

3. The revenue budget

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore, municipalities are required to ***justify all increases in excess of the*** **projected inflation target for 2019/20** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition, municipalities should include details of their revenue growth assumptions for the different service charges in the budget narrative.

Local government also confronts tough fiscal choices in the face of financial and institutional problems that result in service-delivery breakdowns and unpaid bills. Municipalities can offset these trends by improving own revenue collection, working more efficiently and implementing cost containment measures. Addressing bloated organizational structures that have been observed to contribute towards this problem warrants decisive action across all municipalities.

3.1 Eskom bulk tariff increases

The National Energy Regulator of South Africa (NERSA) published their new multi-year price determination for the period from 2019/20 to 2021/22 on 7 March 2019.

NERSA will shortly publish their "Municipal Tariff Guideline Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2019/20 financial year". Municipalities are encouraged to download the full guideline document when it becomes available (at www.nersa.org.za) and study it carefully. The guideline includes an update to the average cost structure used to determine the municipal tariff increase. It will set out proposed timeframes for the approval of municipal tariffs.

Municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability. Municipalities in arrears with Eskom should ensure that their payment arrangements are effected in their 2019/20 MTREF budget.

The 2019 Budget Review notes that, the NERSA tariff increases would be announced after the equitable share allocations had been calculated and tabled in the Division of Revenue Bill. In the absence of approved tariff increases for the period ahead, the equitable share formula allocations were calculated using the previously approved Multi-Year Price Determination of an 8 per cent annual bulk price increase for electricity in its calculations. If the approved tariff increases are higher than this, the equitable share allocations will not be increased in 2019/20. The Budget Review then explains that municipalities are expected to offset the increased cost of providing free basic services against above cost increases that they have received in the past. In recent years, municipalities have benefited from equitable share funding that has grown faster than actual increases in electricity costs (in 2017/18 the formula calculation used a bulk electricity price increase of 8 per cent, but NERSA only approved a bulk price increase of 0.3 per cent for the municipal financial year, and in 2018/19 a bulk increase of 8 per cent was used in the formula, but the actual increase was only 7.3 per cent). Municipalities have also benefited from increased allocations that were provided to cover household growth projections that were higher than the revised estimates in the 2017 General Household Survey. To provide for the possibility of larger cost increases in future, amounts of R1 billion in 2020/21 and R1.1 billion in 2021/22 remain unallocated in the equitable share.

4. Conditional Grant Transfers to Municipalities

This section provides guidance to municipalities with regard to the preparation for the 2018/19 unspent conditional grant and roll-over process and should be referenced against previous annual budget circulars.

4.1 Criteria for the rollover of conditional grant funds

Section 22 of the 2018 Division of Revenue Act (DoRA) requires that any conditional grants which are not spent at the end of the municipal financial year must revert to the National Revenue Fund, unless the receiving officer, provincial treasury and transferring national officer proves to the satisfaction of National Treasury that the unspent allocation is committed to identifiable projects, in which case the funds may be rolled over.

When applying to retain unspent conditional allocations committed to identifiable projects or requesting a rollover in terms of section 22(2) of the DoRA, municipalities must include the following information with their submission to National Treasury:

1. A formal letter, signed by the accounting officer must be addressed to the **National Treasury** requesting the rollover of unspent conditional grants in terms of section 22(2) of the 2018 DoRA;
2. A list of all the projects that are linked to the unspent conditional grants and a breakdown of how much was allocated and spent per project;
3. The following evidence indicating that work on each of the projects has commenced, as applicable to the specific rollover(s):

    a) Proof that the project tender was published and the period for tender submissions closed before 31 March;
    b) Proof that a contractor or service provider was appointed for delivery of the project before 31 March; or

c) Proof of a project tender, appointment of contractor or service provider for delivery of service before 30 June in cases where additional funding was allocated during the course of the final year of the project;
d) Incorporation of the Appropriation Statement;
e) Evidence that all projects linked to an allocation will be fully utilised by 30 June 2019 (attach cash flow projection for the applicable grant).

4. A progress report (also in percentages) on the status of each project's implementation that includes an attached, legible **implementation plan**);
5. The value of the committed project funding, and the conditional allocation from the funding source;
6. Reasons why the grants were not fully spent during the year of original allocation per the DoRA;
7. Municipalities must not include previous year's unspent conditional grants as a rollover request. Rollover of rollovers will not be considered;
8. An indication of the time-period within which the funds are to be spent if the roll over is approved; and
9. Proof that the Municipal Manager and Chief Financial Officer are permanently appointed.

No rollover requests will be considered for municipalities with vacant or acting Chief Financial Officers and Municipal Managers for a period exceeding 6 months from the date of vacancy.

If any of the above information is not provided or the application is received by National Treasury (Intergovernmental Relations Division) after 31 August 2019, the application will be declined.

In addition, National Treasury will also consider the following information when assessing rollover applications; and reserves the right to decline an application should there be non-performance by the municipality in any of these areas:

1. Compliance with the in-year reporting requirements in terms of sections 71 and 72 of the MFMA and section 12 of the 2018 DoRA, **including the municipal manager and chief financial officer signing-off on the information** sent to National Treasury;
2. Submission of the pre-audited Annual Financial Statements information to National Treasury by 31 August 2019;
3. Accurate disclosure of grant performance in the 2018/19 pre-audited Annual Financial Statements, (i.e. correct disclosure of grant receipts and spending in the notes to the AFS);
4. Cash available in the bank (net position including short term investments) as at 30 June 2019 is in line with the cash flow statements to finance the roll-over request. If the full amount that is requested for roll over is not entirely cash backed, such a roll over will not be approved. National Treasury will not approve portions of roll over requests.

It should be noted that under no circumstances will the National Treasury consider requests to roll-over:

1. The entirety of any allocation to the municipality, as there should be a minimum spend of 50 per cent of the allocation per programme;
2. Funding from the same grant for the third consecutive time;
3. Funding for projects constituted through Regulation 32 of the Municipal Supply Chain Management Regulations (Gazette No.27636). Projects linked to additional funding and disasters are exempted; and
4. Funding where there is evidence that the roll over application is linked to invoices that were issued within the last 30 days of the municipal financial year end.

4.2 Unspent conditional grant funds for 2018/19

The process to ensure the return of unspent conditional grants for the 2018/19 financial year will be managed in accordance with section 22 of the DoRA. In addition to the previous MFMA Circulars, the following practical arrangements will apply:

Step 1: Municipalities must submit their June 2019 conditional grant expenditure reports according to section 71 of the MFMA reflecting all accrued expenditure on conditional grants and further ensure that expenditure reported to both National Treasury and national transferring officers reconcile.

Step 2: When preparing the Annual Financial Statements, a municipality must determine the portion of each national conditional grant allocation that remained unspent as at 30 June 2019. These amounts MUST exclude all interest earned on conditional grants, retentions and VAT related to conditional grant spending that has been reclaimed from SARS, which must be disclosed separately.

Step 3: If the receiving officer wants to motivate in terms of section 22(2) of the 2018 DoRA that the unspent funds are committed to identifiable projects, the roll over application pack must be submitted to National Treasury by 31 August 2019.

National Treasury will not consider any rollover requests that are incomplete or received after this deadline.

Step 4: National Treasury will confirm in writing whether or not the municipality may retain any of the unspent funds as a rollover based on criteria outlined above by 22 October 2019 or whether it will agree to any alternative payment arrangement or schedules.

Step 5: National Treasury will communicate the unspent conditional grants amount by 05 November 2019. A municipality must return the remaining unspent conditional grant funds that are not subject to a specific repayment arrangement to the National Revenue Fund by 18 November 2019.

Step 6: Any unspent conditional grant funds that should have, but has not been repaid to the National Revenue Fund by 18 November 2019, and for which a municipality has not requested a repayment arrangement, will be offset against the municipality's 02 December 2019 equitable share allocation.

All other issues pertaining to Appropriation Statement and reporting on approved roll overs are addressed in the Annexure to MFMA Circular No. 86.

5. The Municipal Budget and Reporting Regulations

5.1 Tabling of budget documents

The slow spending of capital budgets by most municipalities is a national concern as it has a negative impact on service delivery. In most cases the hockey stick phenomenon that exists (i.e. spending increases in the last six months of the year) is a direct result of poor planning by municipalities. Going forward and to address weak planning process, all municipalities will be required to table the following supporting documents to Council, as part of the budget pack, when they table their budgets by 29 March 2019:

1) Service Delivery and Budget Implementation Plan (SDBIP); and
2) Procurement Plan.

This is also in terms of the requirements and spirit of the MFMA and its Municipal Budget and Reporting Regulations.

5.2 The impact of VAT on tariffs

VAT remains at 15 per cent, which was an increase from 1 April 2018 in the previous year. To mitigate the effects of this increase on low income households, the MTBPS announced various zero rated items, wherein the VAT would be charged at 0 per cent.

Whether the additional amount is recoverable from the customer or not, the supplier must account for VAT on any supplies made on or after 1 April 2018 at the increased VAT rate. (See MFMA Circular No. 91 on the relevant supporting documentation regarding the VAT guides).

5.3 Schedule A - version to be used for the 2019/20 MTREF

National Treasury has released Version 6.3 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.3 of the *m*SCOA classification framework and must be used when compiling the 2019/20 MTREF budget.

ALL municipalities **MUST** use this version for the preparation of their 2019/20 MTREF budget.

It is imperative that all municipalities prepare their 2019/20 MTREF budgets in their financial systems and that the Schedule A1 be produced directly from their financial system. Vendors have recently demonstrated their budget modules to the National Treasury and provincial treasuries. All financial systems have this functionality to assist and prepare budgets and to generate the prescribed Schedule A1 directly from the financial system. Municipalities **must** start early enough to capture their tabled budget (and later the adopted budget) in the budget module provided and **must** ensure that they produce their Schedule A1 directly out of the budget module.

To promote this approach, from the **2020/21 MTREF** the National Treasury will only accept a Schedule A1 in PDF format, containing ALL sheets as prescribed and with each worksheet displaying an embedded system stamp to certify that it has been produced directly from the system. For purposes of collecting additional data which we previously did using the Schedule A1 in Excel, a prescribed data string containing the data must be populated and uploaded by each municipality (refer to the attachment to MFMA Budget Circular No 93 on the NT Website).

http://mfma.treasury.gov.za/Circulars/Pages/default.aspx

Special attention must be given to the supporting schedules in the prescribed Schedule A1. Where detailed data is lying in a sub-system e.g. human resource data for SA22 to SA24, this data must be pulled from the sub-system into the applicable supporting sheet and must form part of the complete endorsed Schedule A1.

The following supporting tables will be included for perusal and sign-off during the verification process of the 2019 MTREF: SA11, SA12a, SA13a, SA14, SA22, SA23, SA24, SA25, SA27, SA36, SA37 and SA38.

It is therefore important to focus on the additional supporting data as well as the financial data submitted on A1 to A10 during the verification process undertaken with National Treasury, the provincial treasuries and all municipalities.

Download Version 6.3 of Schedule A1 by clicking HERE

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:
http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx

5.4 Assistance with the compilation of budgets

In cases where the municipality requires advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Bernard Mokgabodi Matjatji Mashoeshoe	012-315 5936 012-315 5553	Bernard.Mokgabodi@treasury.gov.za Matjatji.Mashoeshoe@treasury.gov.za
Free State	Jordan Maja Cethekile Moshane	012-315 5663 012-315 5079	Jordan.Maja@treasury.gov.za Cethekile.moshane@treasury.gov.za
Gauteng	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
KwaZulu-Natal	Bernard Mokgabodi Johan Botha	012-315 5936 012-315 5171	Bernard.Mokgabodi@treasury.gov.za Johan.Botha@treasury.gov.za
Limpopo	Una Rautenbach Sifiso Mabaso	012-315 5700 012-315 5952	Una.Rautenbach@treasury.gov.za Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Willem Voigt Mandla Gilimani	012-315 5830 012-315 5807	Willem.Voigt@treasury.gov.za Mandla.Gilimani@treasury.gov.za
Northern Cape	Jordan Maja	012-315 5663	Jordan.Maja@treasury.gov.za
North West	Willem Voigt Makgabo Mabotja	012-315 5830 012-315 5156	Willem.Voigt@treasury.gov.za Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge Kevin Bell	012-315 5661 012-315 5725	Vuyo.Mbunge@treasury.gov.za Kevin.Bell@treasury.gov.za
Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution in accordance with the format specified in item 31 of Schedule A of the Municipal Budget and Reporting Regulations. In addition to the above compliance check, the *m*SCOA data strings will be assessed to determine whether the municipalities are compliant.

The National Treasury herewith emphasises that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***they will be required to return to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations***.

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

> The Schedule A that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and the budget of the parent municipality. Schedules D must be submitted for each entity.

6. Municipal Chart of Accounts (*m*SCOA)

6.1 Virement in an *m*SCOA environment

The MFMA and the Municipal Budget and Reporting Regulations, 2009, allow for the shifting of funds between items, projects, programmes and votes in the budget in line with a Council approved virement policy. MFMA Circulars No. 12, 51 and 88 provide the principles municipalities must consider when doing a virement.

With the promulgation of the *m*SCOA Regulation in 2014, municipalities should have aligned their virement policies to *m*SCOA. *m*SCOA provides a uniform and standardised financial transaction classification framework for municipalities and their entities to transact in and record its transactions using seven (7) segments. Six of these *m*SCOA segments are compulsory[1].

6.2 *m*SCOA training

The National Treasury has developed *m*SCOA training materials on the fundamentals and reporting requirements of *m*SCOA. Officials from National and Provincial Treasuries and the Preferred Trainers on *m*SCOA from the Chartered Institute of Government Finance, Auditors and Risk Officers (CIGFARO) have been trained to provide training in this regard.

While the CIGFARO Preferred Trainers have been issued with certificates of competence to provide training on the “On the fundamentals and reporting requirements of *m*SCOA”, it should be emphasized that this training is **unaccredited**. There is currently not any accredited training available on *m*SCOA that has been endorsed by the National Treasury. Therefore, municipalities and other role-players that require training on *m*SCOA should not request for accredited training or trainers in their adverts.

The contact details of the CIGFARO Preferred Trainers is available on the CIGFARO website, www.CIGFARO.co.za.

7. Budget process and submissions for the 2019/20 MTREF

7.1 Budgeting for the audited years on Schedule A (*m*SCOA)

According to international learning practices, it is appropriate to reclassify historical information in accordance with the changes that occur in the Standard Chart of Accounts. Municipalities must capture the reclassified audit outcomes for 2015/16 to 2017/18 in version 6.3 of the Schedule A when compiling 2019/20 MTREF budgets.

[1] Refer to Municipal SCOA Circular No 1. An introduction to the seven (7) segments.

7.2 Submitting budget documentation and schedules for 2019/20 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in the municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. If the annual budget is tabled to council on 29 March 2019, the final date of submission of the electronic budget documents and corresponding data strings is **Wednesday, 03 April 2019**. The deadline for submission of hard copies including council resolution is **Friday, 05 April 2019**.
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget. If the council only approves the annual budget on 30 June 2019, the final date for such a submission is **Friday, 12 July 2019**, otherwise an earlier date applies.

The municipal manager must submit:

- the budget documentation as set out in Schedule A (version 6.3) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA38) in both printed and electronic formats;
- the draft Service Delivery and Budget Implementation Plan (SDBIP) in both printed and electronic format;
- the draft Integrated Development Plan (IDP);
- Procurement Plan;
- the council resolution;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations;
- the budget locking certificate; and
- schedules D specific for the entities.

Municipalities are required to send electronic versions of documents and the A1 schedule to lgdocuments@treasury.gov.za. Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za. Budget related documents and schedules may also be uploaded using the LG Upload Portal at

https://lguploadportal.treasury.gov.za/sites/lguploadportal/SitePages/Home.aspx

Municipalities are required to send printed submissions of their budget documents and council resolution to:

For couriered documents	***For posted documents***
Ms Linda Kruger	Ms Linda Kruger
National Treasury	National Treasury
40 Church Square	Private Bag X115
Pretoria, 0002	Pretoria, 0001

In addition to the above-mentioned budget documentation, metropolitan municipalities must submit the draft Built Environment Performance Plan (BEPP) tabled in council by 29 March 2019 to yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with yasmin.coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin

Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001.

7.3 Retirement of the Budget reform returns (Appendix B)

From 2019/20 onwards, municipalities will no longer be required to continue with the use of the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database for publication purposes. The National Treasury will use only the *m*SCOA data strings required for submission as prescribed and all publications will use the data collected from the *m*SCOA data strings.

This places the responsibility on each municipality to ensure that:

1. Budgets are accurately locked into the financial system;
2. Each transaction is accurately recorded on a daily base;
3. Data collected from sub-systems is accurately represented in the General Ledger (GL);
4. At the end of the reporting period, all reconciliations are done, sub-systems are in balance and the Municipal Manager and CFO agrees with the figures as presented in the Schedule C and other management reports or dashboards;
5. The reporting period is **CLOSED** for further transactions; and
6. The data string for the period is produced directly out of the financial system and uploaded using the LG Upload Portal.

While the National Treasury will still share control reports and Schedule C as produced from the data uploaded by municipalities, the verification process before each quarterly Section 71 publication will fall away as the responsibility now lies with the municipality **BEFORE** submitting the data strings to ensure that the data is an accurate reflection of the state of municipal finances.

The tabled and adopted budget data strings submitted to the Local Government Database and Reporting system should also be consolidated figures.

NOTE: Municipalities must conclude all reporting for 2018/19 up to restated audit outcomes on the Appendix B (old electronic returns) to lgdatabase@treasury.gov.za before we can retire the returns.

7.4 Upload of the *m*SCOA budget data strings to the LG upload portal

Municipalities must upload the *m*SCOA data strings for the tabled (**TABB**) and adopted (**ORGB**) budget to the upload portal. The budget data strings must be accompanied by the IDP project details data strings (**PRTA** and **PROR**). The deadlines for submission of the MBRR documents are also applicable to the *m*SCOA data strings. Refer to paragraph 7.2 above.

7.5 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (including the audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting transparency and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, http://mfma.treasury.gov.za/Documents/Forms/AllItems.aspx. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

7.6 The process to be followed to issue version 6.4 of the *m*SCOA chart

Municipalities have raised concerns that National Treasury issue the *m*SCOA chart changes late in the budget process. Therefore, to address this challenge, the FAQ database will be closed on 31 August 2019 for logging new queries. As a result, the new version of the chart will be issued by 31 October 2019.

Contact

national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

Post	Private Bag X115, Pretoria 0001
Phone	012 315 5009
Fax	012 395 6553
Website	http://www.treasury.gov.za/default.aspx

JH Hattingh
Chief Director: Local Government Budget Analysis
08 March 2019